Introduction: Corporate responsibility and global business

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Corporate responsibility has gone global. Business leaders, as well as leaders from government and civil society, increasingly argue that business must play a constructive role in addressing massive global challenges.[1] Business is not responsible for causing most of the problems associated with, for example, extreme poverty and hunger, child mortality and HIV/AIDS – and, arguably, it is only indirectly responsible for most of the problems of climate change. However, it is often claimed that business has a responsibility to help ameliorate many of these problems and, indeed, it may be the *only* institution capable of effectively addressing some of them. As a result, corporate responsibility has secured the attention of business leaders, governments and NGOs to an unprecedented extent. Thus this book, *Global Challenges in Responsible Business* – which originated in an international conference on corporate responsibility organized at London Business School – addresses the implications for business of corporate responsibility in the context of globalization and the social and environmental problems faced by global business today.[2]

The book offers a rich set of articles reflective of research on corporate responsibility, many of which are informed by empirical studies. It focuses on three key corporate responsibility issues for global business: embedding corporate responsibility within the organization, the relationship between corporate responsibility and marketing, and implementing corporate responsibility in developing countries. As well as contributing to our understanding of corporate responsibility and global business and identifying implications for further research, the articles here also provide insight for practitioners, who find increasingly that they must address these issues.

Embedding corporate responsibility: engaged employees

The first four chapters of the book examine the challenges of embedding corporate responsibility. All four chapters illustrate the critical role of employee engagement in embedding corporate responsibility and suggest a need for further research on the dynamics of how employees both initiate and respond to corporate responsibility policies and programmes.

In Chapter 1, Gond *et al.* examine the role of employees in explaining the relationship between corporate social responsibility and corporate financial performance. They suggest that corporate social responsibility (CSR) can lead to employees identifying with responsible companies. In addition, norms of reciprocity suggest employees reciprocate responsible behaviour exhibited by their employer. This identification and reciprocity, in turn, can increase work quality, lower employee turnover, and improve organizational efficiency, all of which can improve financial performance. The authors identify implications for human resource policies and practices, such as involving employees in the design of CSR strategy.

Berger *et al.*, in Chapter 2, draw upon elite interviews with multiple informants in twenty-six companies, nonprofits and consulting firms involved in eleven social alliances. Social alliances – defined by Berger *et al.* as ‘long-term, strategic relationships between companies and nonprofits that have at least one noneconomic (i.e. social) and one economic goal’ – are poorly understood, yet proponents claim they offer great potential to embed corporate responsibility. In keeping with the model in Chapter 1 by Gond *et al.*, Berger and her colleagues suggest that social alliances provide a means for employees to achieve professional goals while finding personal meaning in the workplace by doing good. These outcomes are likely to benefit the firm financially while the alliance also results in benefits to the firm’s partners.

Chapter 3, by Mirvis and Manga, explores the role of middle managers as change agents attempting to embed corporate responsibility in their organizations. It is based on research with eight North American multinational corporations. The practices of these organizations illustrate how corporate responsibility can be embedded – and not least as a result of the passion of the practitioners involved. Passionate and inspiring business leaders are not found only at the top of organizations. As Mirvis and Manga show, committed mid-level executives also may effect change and they do so by employing tactics such as building on small wins and reusing or 'piggy-backing' on existing structures and schemes.

The concluding chapter of Part I, Chapter 4, sounds a cautionary note. Drawing on a detailed case study of a CSR initiative in a European energy company, Acquier shows how the initiative became marginalized because of the failure by 'Energy Co.' to adopt a coherent CSR management model. The author defines a management model as a combination of a definition of performance, a set of management objectives, and organizational devices, processes and skills. This is one way of thinking about what embedding corporate responsibility in a firm should involve. The Acquier study shows how the company's CSR activities, not just its statements of good intent, affect how employees respond.

Marketing and corporate responsibility: communication as a key component

Consumer concerns about CSR issues drive many companies' attention to corporate responsibility. All three chapters in Part II focus on this relationship and suggest that further research is required on how companies can more effectively communicate with consumers about CSR practices.

In Chapter 5, Auger *et al.* present the findings of experimental research on ethical consumerism conducted in six countries (the United States, Germany, Spain, Turkey, India and Korea). Their experiments forced consumers to make trade-offs between functional product features (e.g. brand and price) and social product features (e.g. whether or not the product was manufactured by children). This provided a basis for identifying segments of consumers who placed a greater value on socially acceptable products than other consumers. They used AA batteries and athletic shoes as the focal products. While 'ethical segments' were identified for both batteries and shoes, only a small proportion of consumers belonged to both, suggesting ethical consumerism may vary across product categories and social issues. Cultural differences were less of a factor in predicting segment membership than previous research would suggest. Perhaps most importantly, Auger *et al.* report that many consumers in their sample were unaware of the social features of the products they purchase, suggesting the need for greater communication about and public understanding of the social and environmental dimensions of consumer purchasing decisions.

Chapter 6, by Maon *et al.*, examines how different stakeholders respond to CSR, using home-furnishing retailer IKEA as a case study. The authors interviewed twenty external stakeholders, including human rights NGOs, environmental NGOs, trades unions, an SME interest group, city councils, CSR consultants and an international research foundation. They also spoke with senior IKEA managers, and surveyed IKEA consumers. At IKEA, multiple stakeholders are important audiences for communication about CSR initiatives. At the same time, two-way communication with stakeholders also influences IKEA's CSR policies. Stakeholders' perceptions of CSR at IKEA varied along several important dimensions. Thus the authors suggest that appropriately tailored messages and communication tools need to be employed for each of the firm's stakeholders.

In Chapter 7, Perrini *et al.* note the difficulties presented in research of the aggregate relationship between corporate social performance and corporate financial performance and instead test a more specific component within the relationship. Using data from 400 telephone interviews with consumers of retail chains in two Italian cities, they examined the role of consumer trust and found that consumers who viewed retailers as more socially oriented (as a result of Fair Trade policies) demonstrated more trust in the retailer. This trust, in turn, translated into greater brand loyalty, with improved economic performance as the likely consequence. A key caveat again, however, is that the CSR policy must be effectively communicated to consumers.

Corporate responsibility and developing countries: understanding the context

Globalization has dramatically increased the presence of multinational corporations in developing countries. Many of the global challenges we noted at the outset of this chapter – challenges posed for business as well as for broader society – are identified within the UN Millennium Development Goals and are specific to developing countries.[3] In the three chapters in Part III, we consider the social and environmental impacts of developing country sourcing and the distribution obstacles in serving the 'bottom of the pyramid' (BOP).

Taken together, they demonstrate the need for more research on the characteristics of developing country contexts and their implications for corporate responsibility in multinational corporations.

In Chapter 8, Kambewa *et al.* present a case study on the sourcing of Nile perch from Lake Victoria. Nile perch production was intended to bring economic and social benefits to the region. While it did so initially, after a decade or so it also brought ecological degradation and increased poverty because of the misuse of the lake's resources. Kambewa *et al.* show how these upstream problems become the responsibility of the downstream participants in the supply chain. They highlight how such companies need to become aware of the sustainability implications of their sourcing and become involved with their channel partners to develop solutions, the complex developing country context notwithstanding.

Chapter 9, by Rangan and Barton, also looks at the complexities of developing country contexts, focusing on the case study of the Tintaya copper mine in Peru, owned at the time by BHP Billiton, the world's largest mining company. The case illustrates how corporate responsibility – especially in regard to environmental performance and resettlement of affected people – is the key to maintaining a social license to operate in extractive industries. From a business case perspective alone, it seems, an embedded approach to corporate responsibility is imperative in this sector – without public permission to operate, mining companies can find their operations shut down. In light of the Tintaya case, Rangan and Barton offer a framework for analysis of the three main levels of the social and environmental impact of the extractive industry, and the associated implications for stakeholder engagement and company control.

Finally, Chapter 10, by Vachani and Smith, highlights the potential societal and economic benefits of companies serving the BOP – the 2.7 billion people in the world who live on less than $2 a day – and the obstacles to be overcome in reaching the rural poor specifically. The authors provide five case studies of 'socially responsible distribution' drawn from across the corporate, government and NGO sectors. The case studies are used to identify initiatives that can provide poor producers and consumers with increased market access for goods and services that they can benefit from buying or selling. These initiatives help neutralize the disadvantages suffered by poor producers and consumers; specifically, inadequate physical links to markets, information asymmetries and weak bargaining power. As in Chapters 8 and 9, particular attention is given to the specific requirements of the developing country context. They recommend strategies for bridging the infrastructure gap, the provision of producer-empowering information, leveraging technology, and promoting cross-sectoral collaboration.

The world has changed

The global financial crisis and recession that dominate the news as we write this introduction (in March 2009) have left many predicting a sharp downturn in attention to corporate responsibility. But this would be precisely the wrong response. The financial crisis is in substantial part due to a failure of corporate responsibility and avoiding its reoccurrence requires more attention to corporate responsibility, not less.

It is likely that we will see budgets cut for certain corporate responsibility projects. But commentators who suggest that this points to a diminished need for corporate responsibility misunderstand the concept. Quite possibly, we will see banks and other institutions engaging in fewer employee-volunteering schemes, or less microfinance lending or cutting donations to charity, for example, but this is not where their primary responsibilities lie. Fundamentally, corporate responsibility has to do with corporations fulfilling their obligations to society in ways that reflect a social contract between business and society.[4] Many banks and other parts of the financial services sector certainly have failed to do this.

Arguably, the billions of euros, dollars and pounds governments around the world have spent bailing out banks is testimony to the failure of corporate responsibility by these institutions. It is all the more evident when we look at the lack of responsibility evident in specific practices, from the lax due diligence in securitization of subprime mortgages, to the mispricing of risk associated with complex financial products such as derivatives, to compensation schemes that rewarded financial executives with huge bonuses based on short-term performance that was reversed in the long term.[5] Certainly, other parties bear some responsibility for the financial crisis, such as regulators, the credit rating agencies, and shareholders who failed to demand evidence of rigorous risk assessments and failed to address the moral hazard of executive compensation and bonus schemes, but the primary blame must lie with the banks themselves. Mismanagement and incompetence are evident, but so too is a lack of social responsibility.

Surprisingly, perhaps, Milton Friedman, the late Nobel Prize-winning economist and long-time critic of corporate responsibility, likely would have agreed with us. As he famously observed: 'There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.'[6] While we would argue that corporate responsibility amounts to much more than aiming to increase the firm's profits within the 'rules of the game', many financial institutions have failed to meet even this basic standard.

Former US Federal Reserve Chairman Alan Greenspan, asked by US lawmakers to offer his explanation for the causes of the financial crisis, commented: 'Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity (myself especially) are in a state of shocked disbelief.'[7] The demise of the investment banks and the large-scale destruction of shareholder value of 2008 have called into question the view that market discipline will ensure the best economic outcomes. Something more than attention to their own self-interest is required of managers and the institutions they manage – and in all businesses, not just banks. They need to act consistent with their social responsibilities.

Early responses to the financial crisis already include calls for more attention to corporate responsibility. Following the election of President Barack Obama, Howard Schultz, CEO of Starbucks Coffee Company, wrote a widely-cited opinion piece advocating 'responsible capitalism'. He observed that the challenging economic climate had caused many business leaders to become fixated on the short term and put corporate social responsibility on the back-burner. But Schultz wrote that this was the wrong response, saying: 'Now is a time to invest, truly and authentically, in our people, in our corporate responsibility and in our communities. The argument – and opportunity – for companies to do this has never been more compelling.'[8]

Undoubtedly, some corporate responsibility projects will fall by the wayside with the justification that short-term economic interests must prevail. However, these projects are likely to be in companies that were not truly committed to corporate responsibility to begin with. The crisis is likely to reduce the amount of hype often associated with corporate responsibility and reveal who is serious. It is also likely to lead to more focused initiatives and to more attention to responsibility fundamentals – meeting the basic obligations of the company to society, be it in the financial services sector or in manufacturing.

The immediate consequences of the crisis also call for responsible approaches to cost reductions and lay-offs. Already, some business leaders have shown leadership by cutting their own compensation as they lay off workers and seek employee wage cuts. The same line of thinking might even be followed by consumers who, as concerned citizens, could come to question their role and responsibility in the financial crisis and in building a sustainable society. For example, there would be no sub-prime crisis without consumers who took on mortgages they could not afford in the hope of refinancing on the back of seemingly ever-increasing property values, mortgage mis-selling notwithstanding. Equally, responsible production is more likely to follow from responsible consumption, when it comes to issues like climate change or sweatshop labour in supply chains.

Thus, despite arguments to the contrary, we foresee more attention to corporate responsibility in these troubled economic times, not less, and especially more attention to responsibility fundamentals. We might even see greater attention to consumer responsibility. The global challenges of responsible business today are unlikely to disappear anytime soon, financial crises and recession notwithstanding. If anything, these economic difficulties heighten the case for greater attention to corporate responsibility, if not a fundamental rethinking of the role of business.

Notes

1 See, for example, reports of the annual meetings of the World Economic Forum at Davos: www.weforum.org/en/events/AnnualMeeting/index.htm (accessed 6 March 2009).

2 The conference, entitled ‘Corporate Responsibility and Global Business: Implications for Corporate and Marketing Strategy’, was held at London Business School in July 2006. The book editors were the conference co-chairs.

3 See: www.un.org/millenniumgoals (accessed 6 March 2009).
4 See, for example: Thomas Donaldson, *Corporations and Morality* (Englewood Cliffs, NJ: Prentice Hall, 1982); Ian Davis, 'The Biggest Contract: Ian Davis on Business and Society', *The Economist,* 26 May.
5 Warren Buffet's February 2009 letter to investors in Berkshire Hathaway provides an accessible account of some of the major underlying problems of the 2008 financial crisis. See: www.berkshirehathaway.com/letters/2008ltr.pdf (accessed 6 March 2009).
6 Milton Friedman, 'The Social Responsibility of Business is to Increase its Profits', *New York Times Magazine,* 13 September 1970.
7 'Greenspan Shocked at Credit System Breakdown', *Reuters,* 23 October 2008. See: www.reuters.com/article/GCA-CreditCrisis/idUSTRE49M58W20081023 (accessed 6 March 2009).
8 See Howard Schultz, 'Yes Business Can', in *The Huffington Post,* 6 November 2008, at: www.huffingtonpost.com/howard-schultz/yes-business-can_b_141969.html (accessed 19 February 2009).

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More Information

PART I

Embedding corporate responsibility